

VZCZCXRO6701  
RR RUEHPA  
DE RUEHUJA #0451/01 0541618  
ZNR UUUUU ZZH  
R 231618Z FEB 06  
FM AMEMBASSY ABUJA  
TO RUEHC/SECSTATE WASHDC 4712  
INFO RUEHOS/AMCONSUL LAGOS 3474  
RUEHZK/ECOWAS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 ABUJA 000451

SIPDIS

SIPDIS

Treasury for Dan Peters  
USDOC FOR 3317/ITA/OA/KBURRESS  
USDOC FOR 3130/USFC/OIO/ANESA/DHARRIS

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [NI](#)

SUBJECT: Nigeria: Budget 2006 Is Passed Into Law

¶1. Summary: On February 22, President Obasanjo signed the 2006 Appropriation Act (the Budget) into law. The National Assembly (federal legislature) passed a U.S. dollar 14.72 billion (Naira 1.899 trillion) budget for 2006, a 1.23% increase over President Obasanjo's earlier budget submission of U.S. dollar 14.54 billion (Naira 1.876 trillion). The National Assembly also increased the budget benchmark price of crude oil from U.S. dollar 33 per barrel in President Obasanjo's earlier submission to U.S. dollar 35 per barrel. President Obasanjo, said the budget would go down in the history books as the fastest to be passed in since 1999. End summary.

History Is Made In the Budget Process  
-----

¶2. President Obasanjo yesterday signed the budget into law, noting that this year's budget would go into the history books as the fastest to be passed since he became President in 1999. He described the current budget process as devoid of the usual rancor and bickering between the legislature and the executive. Obasanjo traced this new development to the remarkable mutual cooperation between the executive and the legislature, and to continuous consultation that went into preparing the budget.

Senate and House of Representatives Pass the Budget  
-----

¶3. On February 16, the Senate (the upper house of the National Assembly) passed a U.S. dollar 14.72 billion (Naira 1.899 trillion) budget for year 2006 as recommended by the Joint Finance Committee of the National Assembly (the Joint Finance Committee is made up of the finance and appropriation committees of both the Senate and House of Representatives). On February 21, the House of Representatives (the lower house of the National Assembly) concurred with the Senate by passing the budget as recommended by the Joint Finance Committee of the National Assembly. The budget benchmark price of crude oil was also increased from U.S. dollar 33 per barrel to U.S. dollar 35 per barrel.

¶4. The National Assembly based its budget projections on maintaining the Value-Added-Tax (VAT) rate at the present 5% as opposed to the executive's request for an increase in VAT to 10%. The National Assembly lowered its expectations for privatization proceeds, which have failed to materialize in the past. The National Assembly increased the budget benchmark price for crude oil to cover the budget deficit that the Executive Branch of government had projected. The

fact that oil prices in the international market are above U.S. dollars 60 per barrel, and may remain at this level or increase during the current fiscal year was used to justify the higher reference price. Part of the projected deficit will be financed with funds that otherwise would have been held in the Excess Crude Oil Account (ECA). (Note: All monies from the sale of crude oil above the budget benchmark price is saved and sterilized in the (ECA) End note).

#### Higher Oil Benchmark Price Will Push Inflation

-----

15. During a budget hearing session in January, Professor Charles Soludo, Governor of the Central Bank of Nigeria (CBN) warned that increasing the budget crude oil benchmark price would add to inflationary pressure. He said that the CBN already had envisaged difficulty in managing inflation with a U.S.\$ 3 increase over the 2005 budgeted oil price of U.S.\$ 30, but with the U.S.\$ 5 price increase above the 2005 budget oil price, controlling inflation would be an uphill battle.

16. Comment: The higher oil reference price and expected inflationary pressure will have a negative impact on Nigeria's performance under its current IMF program. An IMF team is in this week for the first program review. There was some speculation that the President might veto the budget. Instead he signed it with generous praise. President Obasanjo's newfound respect and affection for the National Assembly may be related to the public hearings that the National Assembly is currently conducting to review potential changes to the Constitution, among them a modification that could allow the President to seek a third term in office. He may, therefore, be choosing his battles

ABUJA 00000451 002 OF 002

carefully, deciding to pass the National Assembly's version of the budget rather than insisting on his original version. Having an agreed-upon budget this early (less than two months into the current fiscal/calendar year) is potentially a positive step for more complete budget implementation, a chronic problem since 1999.

FUREY